

POSTED  
11/22/96

Charleston  
28 Broad Street  
P. O. Box 993  
Charleston, SC 29402-0993  
Telephone (803) 577-4000  
Facsimile (803) 724-6600  
E-mail: ycrt@charleston-law.com

Reply to Charleston Office  
Michael A. Molony  
Direct Dial (803) 724-6631

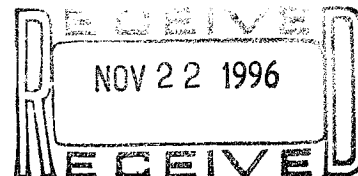
**YOUNG  
CLEMENT  
RIVERS &  
TISDALE LLP**  
ATTORNEYS AT LAW

Columbia  
1901 Assembly Street, Suite 300  
P. O. Box 8476  
Columbia, SC 29202-8476  
Telephone (803) 799-4000  
Facsimile (803) 799-7083  
E-mail: ycrt@columbia-law.com

CAC BB &  
New DWB acct  
3

November 20, 1996

S. C. PUBLIC SERVICE COMMISSION



Charles W. Ballentine  
Executive Director  
S.C. Public Service Commission  
P. O. Drawer 11649  
Columbia, SC 29211

RE: Kiawah Island Utility's Proposal for Rate Increase  
Docket No. 96-168-W/S  
YCR&T File No. 96-1226

Dear Mr. Ballentine:

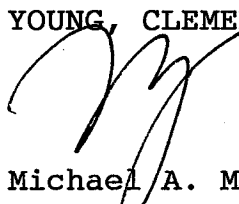
I am enclosing an original and twenty-five copies of Corrected Pages 16, 17, 22, 23, 25, and 29, and well as Substitute Exhibits 1 and 3, for the Pre-Filed Testimony of Wallace R. Dubois on behalf of the Intervenor, Kiawah Property Owners Group ("KPOG"), that was filed with the Public Service Commission on November 18, 1996.

Let me know if you have any questions.

With kind regards, I am

Sincerely,


YOUNG, CLEMENT, RIVERS & TISDALE, LLP

  
Michael A. Molony

MAM/cs

Enclosures

cc: Kiawah Property Owners Group, Inc.  
(Wendy K. Kulick, President; Wallace R. Dubois  
and J. Richard Sayers)  
F. David Butler, Esquire  
Lucas C. Padgett, Jr., Esquire (By Hand Delivery)  
Elliott F. Elam, Jr., Esquire, Consumer Advocate  
Dennis Rhoad, Esquire  
John M.S. Hoefer, Esquire

RETURN DATE: \_\_\_\_\_  
SERVICE: OK 

What we the ratepayers of the Kiawah Island Utility, Inc. are seeking is the same treatment as the ratepayers of other utilities.

In any event, whether the Kuwaitis had donated or not is immaterial, since the costs that were not charged to the Utility Company would have remained on the developer's books. These costs would have been included in the cost of the land and recovered in the selling price of the property sold. It is wrong to have the ratepayers pay for them again in the utility rates.

What I have stated in item "b" above about the \$891,660 loan for the unidentified assets and the related interest payments also applies to the \$138,907 loan for these hydrants. The cash used to pay the interest and repay the loan will be lost to the Utility Company forever.

We ask that the Commission revisit its decision of 1992 and require the developer to repay the utility company the \$139,807 plus all interest payments to date, net of taxes. At the end of 1996 this will amount to \$202,930. See Exhibit 3 attached.

The impact on the rate application is as follows:

1. Interest Expense of \$388,610 in Exhibit D should be reduced by \$14,942. This is the impact of the utility company having to pay interest on the original loan of \$139,807 plus all subsequent interest payments, net of taxes. See Exhibit 3 attached.
2. Depreciation/Amortization Expense of \$326,294 in Exhibit D should be reduced by \$3,104 ( $\$139,807 \times 2.22\%$ ).
3. Accumulated Depreciation/Amortization of \$2,652,928 in Exhibit D should be reduced by \$13,968 ( $\$3,104 \times 4.5$  years, 1991-1995).
4. Plant in Service of \$12,183,920 in Exhibit D should be reduced by \$139,807.
5. Long-term Debt of \$8,004,455 in Exhibit D--Schedule 4 should be reduced by \$204,246. See Exhibit 3 attached.
6. Interest Expense (after interest synchronization) of \$527,623 on Exhibit D--Schedule 4 should be adjusted accordingly.

d. LAND LEASE--HOLDING POND

larger homes which, in turn, require greater irrigation and fire protection needs.

If we set aside the timing issue, we come back to the fact that this facility was required for the development of the eastern end of the Island.

We believe that an independent utility company would take the position that they would provide the service but the developer must donate the land.

Although this does not affect the current rate application, we recommend that in order to avoid having to confront this issue in the next application, this land lease be rescinded and the developer be required to donate the land. In addition, rental payments to date be refunded to the Utility Company.

We find it difficult to believe that any independent utility company would construct \$1.5 to \$2.0 million of immovable assets on two leased sites. It certainly places the Utility Company at the mercy of the developer.

2. OFFSETS TO EXPENSES THAT WERE NOT INCLUDED

a. Tap In fees

The years 1992 - 1994 were not included in the rate application.

| <u>Year</u> | <u>Amount</u>    |
|-------------|------------------|
| 1992        | \$ 64,000        |
| 1993        | 86,250           |
| 1994        | <u>90,750</u>    |
| Total       | <u>\$241,000</u> |

b. Availability Fees (Building Incentive Fees)

The years 1992 - 1995 were not included in the rate increase application.

In item #4 of our First Set of Interrogatories we asked for the amounts of Building Incentive Fees (Availability Fees) collected by Kiawah Resort Associates, L.P. for the years 1992, 1993, 1994 and 1995.

The response was as follows:

"The Applicant objects to this interrogatory as it is not relevant to the Utility, the Utility does not collect Building Incentive Fees, and

Without the relief of treating Availability Fees (Building Incentive Fees) as contributions in aid of construction, the current ratepayers would be required to underwrite the up front costs of the Utility Company for areas being developed by the developer.

We recommend that lacking such information the adjustments be made based on the 1991 amount of \$120,032 with 4% increases in each succeeding year. (The 4% increase is based on the average increase in unimproved lots in recent years.)

| <u>Year</u> | <u>Amount</u>    |
|-------------|------------------|
| 1992        | \$124,833        |
| 1993        | 129,826          |
| 1994        | 135,019          |
| 1995        | <u>140,420</u>   |
| Total       | <u>\$530,098</u> |

The impact on the rate application is as follows:

- a. Adjustment #7 to Contribution in Aid of Construction of \$1,635,420 on Exhibit D should be increased by \$771,098 (Tap In Fees \$241,000 plus Availability Fees \$530,098 adjusted by

1. Grant no increase until the Kiawah Resort Associates, L.P. has done the following:
  - a. Repaid the Utility Company the \$1,251,550, which is the \$891,660 paid by the Utility Company, in 1991, for the unidentified assets plus the subsequent interest payments net of taxes. See Exhibit 2 attached.
  - b. Repaid the Utility Company the \$204,246, which is the \$139,807 paid by the Utility Company, in 1991, for those fire hydrants on the distribution lines, plus the subsequent interest payments net of taxes. See Exhibit 3 attached.
  - c. Rescinded the two land leases, donated the land to the Utility Company and repaid all rental payments to date.
2. Give consideration to the fact that the ratepayers have been overcharged \$223,000 to date as a result of the 1992 rate increase being overstated by \$55,866.
3. Implement the recommendations made by J. Richard ("Dick") Sayers in his testimony.
4. Accept each of the adjustments that I have proposed in my testimony.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

KIAWAH ISLAND UTILITY, INC.  
RETURN ON EQUITY  
TEST YEAR ENDED 12/31/91

Exhibit 1

(PRIOR TO PSC'S ELIMINATION OF \$891,660 OF  
"UNIDENTIFIED ASSETS" FROM RATE BASE)

CALCULATION "A"

| Description      | Capital<br>Structure | Ratio  | As Adjusted  |                         |                            |                      | Effect of Proposed Increase |                         |                            |                      |
|------------------|----------------------|--------|--------------|-------------------------|----------------------------|----------------------|-----------------------------|-------------------------|----------------------------|----------------------|
|                  |                      |        | Rate<br>Base | Embedded<br>Cost/Return | Overall<br>Cost/<br>Return | Income for<br>Return | Rate<br>Base                | Embedded<br>Cost/Return | Overall<br>Cost/<br>Return | Income for<br>Return |
|                  | \$                   | %      | \$           | %                       | %                          | \$                   | \$                          | %                       | %                          | \$                   |
| Long Term Debt   | 4,173,207            | 39.96  | 3,281,184    | 8.51                    | 3.40                       | 279,229              | 3,281,184                   | 8.51                    | 3.40                       | 279,229              |
| Common Equity    | 6,271,466            | 60.04  | 4,929,987    | (1.82)                  | (1.09)                     | (89,679)             | 4,929,987                   | 4.02                    | 2.41                       | 198,187              |
| Total            | 10,444,673           | 100.00 | 8,211,171    |                         | 2.31                       | 189,550              | 8,211,171                   |                         | 5.81                       | 477,416              |
| Operating Margin |                      |        |              |                         |                            |                      |                             |                         |                            |                      |
|                  |                      |        |              |                         |                            | (89,679)             |                             |                         |                            | 198,187              |
|                  |                      |        |              |                         |                            | ----- = (4.67%)      |                             |                         |                            | ----- = 8.50%        |
|                  |                      |        |              |                         |                            | 1,920,374            |                             |                         |                            | 2,331,611            |

Amount of Increase = \$411,237

(PER PSC'S ORDER NO. 92-1030 WITH \$891,660 OF  
"UNIDENTIFIED ASSETS" ELIMINATED FROM RATE BASE)

CALCULATION "B"

|                  |            |        |           |        |       |                 |           |      |      |               |
|------------------|------------|--------|-----------|--------|-------|-----------------|-----------|------|------|---------------|
|                  | \$         | %      | \$        | %      | %     | \$              | \$        | %    | %    | \$            |
| Long Term Debt   | 4,173,207  | 39.96  | 2,924,877 | 8.51   | 3.40  | 248,907         | 2,924,877 | 8.51 | 3.40 | 248,907       |
| Common Equity    | 6,271,466  | 60.04  | 4,394,634 | (1.35) | (.67) | (59,357)        | 4,394,634 | 4.41 | 2.65 | 193,832       |
| Total            | 10,444,673 | 100.00 | 7,319,511 |        | 2.59  | 189,550         | 7,319,511 |      | 6.05 | 442,739       |
| Operating Margin |            |        |           |        |       |                 |           |      |      |               |
|                  |            |        |           |        |       | (59,357)        |           |      |      | 193,832       |
|                  |            |        |           |        |       | ----- = (3.09%) |           |      |      | ----- = 8.50% |
|                  |            |        |           |        |       | 1,920,374       |           |      |      | 2,281,354     |

Amount of Increase = \$360,980

(WITH CAPITAL STRUCTURE REDUCED BY \$891,660  
THROUGH REPAYMENT OF LONG TERM DEBT)

CALCULATION "C"

|                  |           |        |           |       |       |                 |           |      |      |               |
|------------------|-----------|--------|-----------|-------|-------|-----------------|-----------|------|------|---------------|
|                  | \$        | %      | \$        | %     | %     | \$              | \$        | %    | %    | \$            |
| Long Term Debt   | 3,281,547 | 34.35  | 2,514,252 | 8.51  | 2.92  | 213,963         | 2,514,252 | 8.51 | 2.92 | 213,963       |
| Common Equity    | 6,271,466 | 65.65  | 4,805,259 | (.51) | (.33) | (24,413)        | 4,805,259 | 3.94 | 2.59 | 189,167       |
| Total            | 9,553,013 | 100.00 | 7,319,511 |       | 2.59  | 189,550         | 7,319,511 |      | 5.51 | 403,130       |
| Operating Margin |           |        |           |       |       |                 |           |      |      |               |
|                  |           |        |           |       |       | (24,413)        |           |      |      | 189,167       |
|                  |           |        |           |       |       | ----- = (1.27%) |           |      |      | ----- = 8.50% |
|                  |           |        |           |       |       | 1,920,374       |           |      |      | 2,225,488     |

Amount of Increase = \$305,114



## EXHIBIT 3

KIAWAH ISLAND UTILITY CO, INC.  
 AMOUNT TO BE REPAYED BY KIAWAH RESORT ASSOCIATES, L.P.  
 LOAN AMOUNT PLUS INTEREST (NET OF FEDERAL TAXES)  
 ON \$138,907 FOR FIRE HYDRANTS ON DISTRIBUTION LINES  
 FOR THE PERIOD 7/91 TO 12/96

| <u>PERIOD</u>    | <u>INTEREST<br/>EXPENSE</u> | <u>LESS:<br/>TAX<br/>RATE</u> | <u>TOTAL</u>   |
|------------------|-----------------------------|-------------------------------|----------------|
| 7/91             |                             |                               | \$139,807      |
| 6 mos. @ 8.51%   | \$11,898                    | Loss                          | <u>11,898</u>  |
| Balance 12/31/91 |                             |                               | 151,705        |
| 1992 @ 8.51%     | 12,910                      | Loss                          | <u>12,910</u>  |
| Balance 12/31/92 |                             |                               | 164,615        |
| 1993 @ 8.51%     | 14,009                      | 42.1%                         | <u>8,111</u>   |
| Balance 12/31/93 |                             |                               | 172,726        |
| 1994 @ 8.51%     | 14,699                      | 34.4%                         | <u>9,055</u>   |
| Balance 12/31/94 |                             |                               | 181,781        |
| 1995 @ 8.22%     | 14,942                      | 20.0%                         | <u>11,954</u>  |
| Balance 12/31/95 |                             |                               | 193,785        |
| 1996 @ 8.22%     | 15,925                      | 34.0%                         | <u>10,511</u>  |
| Balance 12/31/96 |                             |                               | <u>204,246</u> |

BEFORE THE  
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA  
Docket No. 96-168-W/S

BEFORE THE  
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA  
Docket No. 96-168-W/S

CERTIFICATE OF MAILING

We hereby certify that on this 19th day of November, 1996, we served a copy of the foregoing Corrected Copies of Pages 16, 17, 22, 23, 25, and 29, as well as a substitute Exhibit 3 for the Pre-Filed Testimony of Wallace R. DuBois on behalf of Kiawah Property Owners Group, Inc. upon:

F. David Butler, Esquire  
General Counsel  
South Carolina Public Service Commission  
Post Office Box 11649  
Columbia, South Carolina 29211

Lucas C. Padgett, Jr., Esquire  
McNair Law Firm  
140 E. Bay Street  
Post Office Box 1431  
Charleston, South Carolina 29402

Elliott F. Elam, Jr., Esquire  
Consumer Advocate  
S. C. Department of Consumer Affairs  
Post Office Box 5757  
Columbia, South Carolina 29250

Dennis J. Rhoad, Esquire  
34 Broad Street, Suite 200  
Charleston, South Carolina 29401

with a copy to:

John M.S. Hoefer  
Willoughby & Hoefer, PA  
1022 Calhoun St., Suite 302  
Columbia, South Carolina 29201

by first class mail, postage prepaid.

DATED at Charleston, South Carolina, this 30<sup>th</sup> day of  
November, 1996.

Michael A. Molony, es  
MICHAEL A. MOLONY, ESQUIRE  
Young, Clement, Rivers and Tisdale  
28 Broad Street  
Charleston, South Carolina 29401

Charleston, South Carolina